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ABSTRACT

This report shares information about the use of the Hope and Lifetime Learning education tax credits by students at one large state university system, the University of California (UC). The study also assesses the success of these education tax credits in helping students and families meet the cost of postsecondary education. A survey about education tax credits was completed by 3,644 UC students. Of these students, 29% indicated that they had claimed either of the credits in tax year 1999. Graduate students were more likely to claim an education tax credit (37%). Forty-five percent of students claiming the Hope tax credit were able to claim the maximum amount, and 25% of all those claiming the Lifetime Learning tax credit claimed the maximum amount. The group making the greatest use of the credits was dependent undergraduates whose parents reported incomes between $60,000 and $79,999. For the students, generally not eligible for need-based gift aid, these credits are the only nonrepayable assistance they can receive to help with the cost of their educations. Students with parent income at either end of the distribution were unlikely to claim the credits. A significant number of students, 19% of responded, or 27% of nonclaimers, stated that they were not aware of the credits. The total estimated value of the Hope tax credit to UC students in tax year 1999 was $34.9 million, and the total value of the Lifetime Learning tax credit to UC students was $44.7 million. It is evident from these findings that the education tax credits have enjoyed some early success in helping students and their families meet the cost of higher education, and that the effort UC puts into providing students information about the credits is worthwhile. (Contains 26 tables, 3 exhibits, and 13 endnotes.) (SLD)

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NEW AGENDA SERIES

Hope Works

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Barbara A. Hoblitzell and Tiffany L. Smith
University of California, Office of the President

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Acknowledgments

We wish to thank Lumina Foundation for Education for its financial support of this study. We are especially grateful to Dr. Robert Dickeson, Lumina Foundation's senior vice president for Research, Policy and Evaluation, for his patience and encouragement throughout the research process.

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Finally we wish to thank the many students and families who participated in this project by completing the Tax Credit Utilization Survey and offering their very candid comments.

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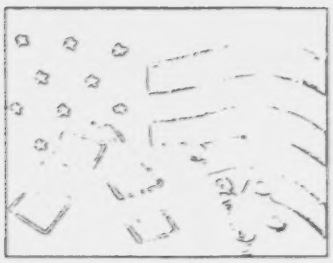


Foreword

With the passage of the Taxpayer Relief Act of 1997, the federal government implemented new methods of helping students and families afford postsecondary education. The Act created several tax benefits for students, but by far the most significant were the Hope Scholarship and Lifetime Learning tax credit programs. These two programs allow students (or the tax filers who claim them as dependents) to obtain credits that reduce their federal tax liability.

Helping to make education affordable is not a new federal goal. For a half century before implementing these tax credit programs, the federal government had been offering students and families financial assistance through grant, loan and employment programs (mostly administered by the U.S. Department of Education) and through "education benefits" programs (mostly administered by the Veterans Administration and Social Security Administration). But the Hope and Lifetime Learning programs differ from previous federal efforts in three important ways.

First, "payments" are not made to students or delivered through their colleges where expenses are incurred. In fact, there are no actual "payments." Instead, dollars are deducted from tax liability, and it is assumed that those dollars saved on the tax bill will be used for education expenses.

Second, while student financial aid payments traditionally are received when education bills are due, tax credits can be received as much as 18 months later, after tax returns are filed. This means that students must use funds from other sources to pay education bills and, in effect, await reimbursement. Or the beneficiaries must estimate their eligibility and reduce their tax withholding accordingly to obtain additional dollars to pay education expenses when they are incurred.

The Hope and Lifetime Learning programs differ from previous federal efforts in three important ways.

Third, unlike previous federal efforts, these two new programs are targeted toward students and families who generally are not eligible for need-based grants but still need financial assistance to meet all of their expenses. The tax credit programs include income caps to prevent upper-income students from qualifying for benefits while providing relief to middle-income

students. But they do relatively little to aid low-income students, most of whom have no tax liability and, therefore, will not be eligible for the credits.

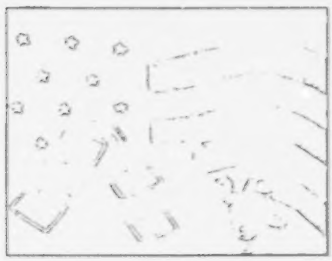
These three differences — a new method of delivering the financial benefits, later receipt of assistance, and the shift in program emphasis away from the neediest students to relatively more affluent students and families — prompted criticism from many financial aid administrators and more than a few policy analysts. They argued that the traditional means of delivering federal student financial aid are more effective and efficient than are tax credit programs. But others argued that the tax credit programs offer valuable and needed support to many students and families who find it difficult to afford college. In a sense, the debate centers on providing students with incentives to attend versus providing relief to students already planning to attend.

In publishing 'Hope Works,' Lumina Foundation for Education is not choosing sides in the continuing debate on whether the tax credit or traditional aid programs are better.

In publishing *Hope Works*, Lumina Foundation for Education is not choosing sides in the continuing debate on whether the tax credit or traditional aid programs are better. Rather we believe that we can play a valuable role for policy-makers and postsecondary education officials by supporting research on how — and how well — all types of financial aid programs work, and then communicating those research results to all interested parties. We applaud the University of California for undertaking this valuable research project to help show how the tax credits work for their students.

Lumina Foundation was proud to provide financial support for the project, and we are pleased to present this report in the hope that it informs the debate on education tax credits. We also hope it assists policy-makers as they develop programs that help all students and families overcome the financial barriers to postsecondary education.

Jerry Sheehan Davis
Vice President for Research
Lumina Foundation for Education



Executive summary

The purpose of this report is to share information about the use of the Hope and Lifetime Learning education tax credits by students at one large state university system, the University of California (UC). In addition, this report assesses the success of these education tax credits in helping students and families meet the cost of postsecondary education.

The Taxpayer Relief Act of 1997 requires colleges and universities to provide students an annual information return and statement, using Internal Revenue Service (IRS) Form 1098-T. Students use this information when applying for the Hope Scholarship ("Hope") and Lifetime Learning tax credits.

In addition to the annual information for use in filling out IRS Form 8863 and the tuition payment statement (IRS Form 1098-T) required by the Act, UC also sends its students two other helpful documents: a detailed accounting of the financial information needed to calculate the education tax credit, and a brochure that addresses a number of questions frequently asked by students. The university also offers a secure Web site that provides a significant amount of both general and personal information regarding these new education tax credits. Finally, UC has a toll-free service center available year-round to respond to inquiries from students.

To determine students' use of education tax credits, we at UC devised a survey that was sent to 9,000 students randomly selected from the 371,000 who paid fees between January 1, 1999, and December 31, 1999 (tax year 1999), and were enrolled on UC's main campuses or in programs offered by UC Extension, professional continuing education and summer sessions. This report contains the results of that survey.

Of the students surveyed, 29 percent indicated they had claimed either a Hope or Lifetime Learning tax credit.

Of the students surveyed, 29 percent indicated they had claimed either a Hope or Lifetime Learning tax credit in tax year 1999. As indicated below, graduate students were more likely to claim an education tax credit than were undergraduate or UC Extension students.

Percent of survey respondents who claimed an education tax credit:

- 27 percent of undergraduate students[1]
- 37 percent of graduate students
- 29 percent of UC Extension students

Of those claiming an education tax credit, a significant number were able to avail themselves of the maximum credit available ($1,500 for the Hope tax credit and $1,000 for the Lifetime Learning tax credit).

Hope Tax Credit

- 45 percent of all respondents claiming a Hope tax credit claimed the maximum amount, including:
  - 53 percent of undergraduate students
  - 28 percent of UC Extension students

Lifetime Learning Tax Credit

- 25 percent of all respondents claiming a Lifetime Learning tax credit claimed the maximum amount, including:
  - 26 percent of undergraduate students
  - 43 percent of graduate students
  - 15 percent of UC Extension students

At 73 percent, the proportion of undergraduate students who neither claimed a credit nor had one claimed on their behalf was higher than that of graduate students (64 percent). Seventy percent of UC Extension students reported they did not claim a credit. Overall, the most likely reason reported by students for not claiming a credit was that they (or the tax filer) were not eligible (42 percent of all respondents; 59 percent of all non-claimers).

The group making the greatest use of the tax credits (46 percent) comprised dependent undergraduates whose parents reported incomes between $60,000 and $79,999. These students are generally ineligible for need-based gift aid[2], and the Hope and Lifetime Learning tax credits are the only non-repayable assistance they can receive to help meet the cost of their education.

Conversely, students with parent income at either extreme of the distribution were unlikely to claim the credits. Low-income students claimed the credits less frequently because their gift aid was too high or their tax liability was too low. It is likely that relatively few high-income students claimed the credits; their incomes generally exceeded the allowable maximums.

Very few students who received gift aid failed to take their aid into account when applying for a tax credit. While the instructions advise taxpayers to deduct the amount of any nontaxable gift aid from the amount of qualified fees paid, the form the IRS created for taxpayers to use in calculating a Hope and/or Lifetime Learning tax credit (IRS Form 8863) does not explicitly guide the filer through this step. It may be that UC's detailed accounting of the financial information, which lists all possible offsetting gift aid, contributed to the accuracy.

The second most common reason cited by respondents for not claiming a credit was that they were not aware of the tax credits. In spite of the efforts to ensure that students were fully informed about the tax credits and the eligibility requirements, and that they had access to the information required to benefit from them, a significant number of students (19 percent of all respondents; 27 percent of all non-claimers) reported they did not know about the credits. Both dependent and independent students were equally likely to cite lack of awareness as the reason they did not claim a credit.

It is important to note, however, that when compared with UC's predictive simulations of student eligibility, it appears that most students who were eligible for the tax credits actually claimed them.

The total estimated value of the Hope tax credit to UC students in tax year 1999 was $34.9 million — $27.6 million for main campus students and $7.3 million for UC Extension students. The estimated total value of the Lifetime Learning tax credit to UC students in tax year 1999 was $44.7 million — $30.7 million for main campus students and $14 million for UC Extension students. (These figures were extrapolated from survey responses provided by a random sample of students.)

These two programs bring the total estimated value of these education tax credits to $79.6 million. This is a "maximum estimate," since non-respondents are less likely than respondents to

have used the education tax credits. Nonetheless, we would expect that the value of these credits will increase as more students and families are made aware of their availability and claim a Hope or Lifetime Learning tax credit.

In tax year 1998, the first year the Hope and Lifetime Learning tax credits were available, the Federal Office of Management and Budget reported the following:

- Of the 13 million families estimated to be eligible to claim $7 billion in education tax credits, 4.7 million families (36 percent) claimed $3.4 billion (49 percent) in credits.
- More than half of the families who claimed a credit earned less than $50,000 per year.
- Nineteen percent of those who claimed a credit earned less than $20,000 per year.

In tax year 1999, this survey revealed that:

- Of the 58,000 UC main campus students and families estimated to be eligible to claim $53 million in education tax credits, 48,000 students and families (83 percent) claimed $58 million (110 percent) in credits.
- More than 45 percent of the families who earned less than $60,000 per year claimed a credit.
- Twenty-two percent of those who earned less than $20,000 per year claimed a credit.

Providing students and families with education tax credits averaging between $661 and $1,119 per year represents a significant amount of financial support. At UC, the estimated aggregate value of $80 million is about 85 percent of the $95 million UC students receive in Pell Grants, the federal government's largest grant program. As the Federal student aid system is now structured, the tax credits complement the Pell program, providing modest levels of assistance to middle-income students not eligible for Pell Grants (i.e., those with family incomes from $40,000 to $80,000).

It is evident from this survey that the Hope and Lifetime Learning tax credits have enjoyed some early success in helping students and families meet the cost of higher education. As a reporting institution, it is also clear that the investment made to ensure that students and families have access to the information needed to calculate a credit for which they may be eligible is a worthwhile one. (Some at UC may dispute the value of some of the statutory reporting regulations, but there clearly is value in providing meaningful information to students and families.) However, it is also clear that more work is needed to ensure eligible tax filers avail themselves of these new benefits. In spite of significant public information efforts by the university, the media and the IRS, some students and families are still unaware of the tax credits or how they might benefit from them.

The Hope and Lifetime Learning tax credits have enjoyed some early success in helping students and families meet the cost of higher education.

In summary, the survey revealed that:

- Most students who were eligible to claim the education tax credits actually claimed them.
- Very few students who received gift aid for qualified educational expenses failed to take their offsetting aid into account when applying for an education tax credit.
- Students and families need more information about these new tax benefits.
- The financial value of the education tax credits is significant.

Salient points were made in the verbatim comments, including:

- Eligibility requirements for the Lifetime Learning credit may be too complex or too dissimilar from Hope.
- The income ceilings may hamper some students and families, especially single parents of dependent college students, who feel they need help paying for college.
- The non-refundable aspect of the education tax credits may harm some needy students and families.

Introduction

The Taxpayer Relief Act of 1997[3] passed into law six tax benefits relating to higher education expenses:

1. The Hope and Lifetime Learning tax credits.
2. A tax deduction for interest on education loans.
3. Penalty-free withdrawals from individual retirement plans for higher education expenses.
4. Modifications of qualified State Tuition Plans.
5. Education Individual Retirement Accounts.
6. An extension of the exclusion for employer-provided educational assistance.

This study focuses on the Hope and Lifetime Learning tax credits mainly because the law requires higher education institutions that receive payment for qualified education expenses to file annual information returns with the Internal Revenue Service (IRS) via IRS Form 1098-T as third-party verification for any education tax credits claimed. In addition, the statute mandates that a copy of the return be provided to the student who paid the tuition and fees (or on whose behalf the tuition and fees were paid); the copy must be mailed by January 31 of the following calendar year. These requirements place significant administrative and cost burdens on colleges and universities. Moreover, they raise numerous questions regarding the role of such institutions in amassing and disseminating information (which had previously been protected as private) for the sole purpose of verifying the potential eligibility of a tax filer who may or may not opt to claim one or both of these tax credits.

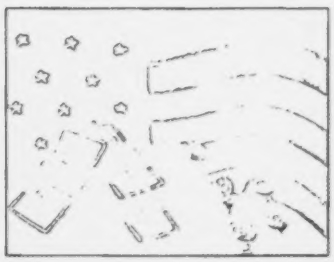
These requirements place significant administrative and cost burdens on colleges and universities.

For tax year 1999, the University of California provided Form 1098-T to more than 371,000 students at a total cost of nearly $1 million. In addition to adhering to the reporting requirements, UC opted to provide students with additional, critical financial information regarding their qualified educational expenses paid and any potentially offsetting financial aid received (Exhibits A and B). Naturally, it was of great interest to us at UC to know if this investment had yielded any significant financial benefit to our students.

We also hoped to validate, within our own population, data obtained by the federal Office of

Management and Budget and released January 20, 2000, in a press briefing by then U.S. Secretary of Education Richard Riley. In short, in tax year 1998, the first year the Hope and Lifetime Learning tax credits were available, the data revealed the following:

- Of the 13 million families estimated to be eligible to claim $7 billion in education tax credits, 4.7 million families (36 percent) claimed $3.4 billion (49 percent) in credits.
- More than half of the families who claimed a credit earned less than $50,000 per year.
- Nineteen percent of those who claimed a credit earned less than $20,000 per year.



Details of the Hope and Lifetime Learning tax credits

The maximum amount of a Hope tax credit that can be claimed in a given tax year is $1,500 for each eligible student or the amount of federal income tax liability, whichever is less. The Hope tax credit may be claimed for only two years per student.

To qualify for the Hope credit, eligible students need to meet all of the following criteria:

- Enrolled in one of the first two years of postsecondary education (generally, the freshman or sophomore years of college) at an eligible school.
- Enrolled in a program that leads to a degree, certificate or other recognized educational credential.
- Taking at least half of the normal full-time work load for at least one academic period during the tax year (or in certain circumstances, during January, February or March of the following year).
- Free of any felony conviction for possessing or distributing a controlled substance.

The Hope credit is calculated as 100 percent of the first $1,000 plus 50 percent of the next $1,000 paid for each eligible student's qualified education expenses[4], less any nontaxable gift aid (for example, grants and scholarships).

The Lifetime Learning credit provides for an education tax credit of up to $1,000 for the total qualified education expenses paid during the tax year for all eligible students claimed as dependents or co-filers by the taxpayer. The amount of the Lifetime Learning credit that can be claimed does not increase based on the number of eligible students for whom qualified education expenses were paid. Unlike the Hope tax credit, this credit may be claimed for as many tax years as qualified education expenses are paid (and the other eligibility criteria are met).

The Hope tax credit may be claimed for only two years per student.

To qualify for the Lifetime Learning tax credit, eligible students must meet the following criteria:

- Enrolled at an eligible school during the tax year (or in certain circumstances, during

January, February or March of the following year) AND

- Enrolled as an undergraduate or graduate student OR
- Enrolled in one or more classes to improve job skills, including required continuing education courses.

The Lifetime Learning credit is calculated for all eligible students in the family as 20 percent of the first $5,000 paid for qualified education expenses, less any nontaxable gift aid. The maximum credit is $1,000 or the amount of federal income tax liability, whichever is less.

The Hope tax credit is claimed on a "per student" basis; the Lifetime Learning credit is claimed on a "per taxpayer" basis.

The amount an eligible taxpayer may claim for either the Hope or Lifetime Learning tax credit is gradually reduced for single tax filers whose modified adjusted gross income (AGI) is between $40,000 and $50,000; and $80,000 and $100,000 for joint tax filers. A taxpayer who is married and filing a separate tax return cannot claim either credit.

As stated, the Hope tax credit is claimed on a "per student" basis; the Lifetime Learning credit is claimed on a "per taxpayer" basis. A student claimed as a dependent for federal income tax purposes by another taxpayer (for example, his or her parents) may not claim either education tax credit on his or her own federal income tax filing. However, the taxpayer claiming the student as a dependent may claim the credit on the student's behalf. The following scenarios illustrate how the dependency status of the student may affect the claiming of an education tax credit:

- If a parent is claiming two students as dependents, and one is enrolled in the first year of college and the other is enrolled in the second year of college, and each student has paid more than $2,000 in qualified education expenses for which no offsetting nontaxable gift aid was received, the parent (if otherwise eligible) could claim a $1,500 Hope tax credit for each student, or $3,000 in total tax credits.
- If this same parent is claiming these same two students as dependents, and both students have completed at least two years of college, and each has paid more than $5,000 in qualified education expenses for which no offsetting nontaxable gift aid was received, the parent (if otherwise eligible) could claim a maximum of $1,000 in Lifetime Learning tax credit for the entire family.
- However, if a third dependent student is eligible for the Hope tax credit, this parent could also claim up to $1,500 for a Hope tax credit. In this third scenario, the parent could have claimed a maximum of $2,500 in education tax credits.

Survey description

Several significant factors determine education tax credit eligibility: the tax filer's income and tax liability, the amount of qualified education expenses and any offsetting gift aid received by the student, and the dependency status of the student. Students claimed as dependents may find their eligibility reduced or diminished by the income ceilings[5] that apply to their parents. In addition, dependent students whose families fall within or below the allowable income ranges to claim a Hope or Lifetime Learning tax credit are presumed to be more likely to have received nontaxable grants or scholarships, which must be deducted from the amount of qualified education expenses paid prior to calculating the amount of the education tax credit.

On the other hand, students who are not claimed as dependents may find they have insufficient tax liability to qualify for the education tax credit (neither the Hope nor the Lifetime Learning tax credit is refundable). Tax-free, employer-provided educational assistance and/or veterans' benefits are a direct offset to the amount of qualified education expenses. Students who have received tax-free distributions from an Education IRA are ineligible to claim either credit.

Dependency status played a key role in the determination of the survey process and design of our survey instrument. We knew that a student who is claimed as a dependent for federal income tax purposes by his or her parent(s) might not be aware that an education tax credit had been claimed on his or her behalf. We suspected that these dependent students might not readily seek the information needed by forwarding the survey instrument to or consulting with his or her parents prior to responding. At the same time, we were limited to contacting the students themselves — at least initially — since theirs were the only names and addresses we had on record. We were concerned, however, that for a significant portion of our undergraduate population, these were not the persons from whom we wanted to hear.

As we struggled with these questions, we also investigated the use of Web technology as a delivery mechanism for the survey. We released a Request for Information (RFI) to several reputable survey research firms to assess the viability of such an approach. While the administration of a Web survey presented too many insurmountable challenges (including the absence of valid e-mail addresses for many of the potential survey participants, security and validation issues and cost), one of the vendors responding to our RFI proposed a unique approach to gathering dependency data.

In short, Field Research Corporation proposed we send the students in our survey sample a pre-

paid calling card. To activate the card, the student would be directed to call a toll-free number and answer a few questions about dependency status. Students who indicated they were claimed as dependents would be asked to provide contact information for the persons who claimed them. In this way, the survey could be directed to the appropriate recipients. Moreover, the calling card could be used as an inducement to increase participation in the research. While this tactic ultimately proved too costly, we were impressed by its unique approach to a perplexing problem.

Simple is best

In the end, we decided that the issue of dependency — and all of the other issues we hoped to query — must be addressed as simply as was reasonably possible. After considering more than 20 questions, complete with complex skip patterns, we distilled our survey instrument to six questions (Exhibit C). We believed that by simplifying the instrument itself and keeping it to a single, double-sided page, we would reduce the intimidation factor and perhaps increase the response rate.

Next we faced two significant challenges: how to frame the questions so that the responses would be evident to the subject, and how to provide enough background information to introduce the Hope and Lifetime Learning tax credits to respondents who might be unfamiliar with them. These objectives were accomplished, in part, with small dialogue boxes following the more complex questions. An example follows below in Figure 1.

We were also able to make more information available by directing survey recipients to view their own 1098-T on the World Wide Web, to call the customer service center with whom we had contracted to handle questions related to the Hope and Lifetime Learning tax credits, or to e-mail the survey administrator. Although we have no evidence to indicate how many of the survey recipients viewed their 1098-T on the Web, we do know that no calls were received by the customer service center, and only 33 e-mails were received by the survey administrator, none of which sought clarification on the questions themselves.

Complex criteria

In addition, we sought to ascertain why a student (or the person claiming the student as a dependent) would not claim an education tax credit. We predicted that most who failed to claim the credit did so because they determined or believed they were ineligible. However, because of the complex eligibility criteria, we were also interested to know which of the eligibility criteria precluded the respondent from claiming a credit.

As an inducement to complete the survey, we offered all respondents an opportunity to win a

Figure 1

2 Did you claim any Education Tax Credit (i.e., Hope or Lifetime Learning Tax Credit) when you filed your 1999 tax return for the UC student to whom this survey was addressed?

*NOTE: A **Hope Tax Credit** of up to $1,500 is available to eligible students in their first two years of college, attending at least half-time, and pursuing an undergraduate degree, certificate, or recognized credential.*

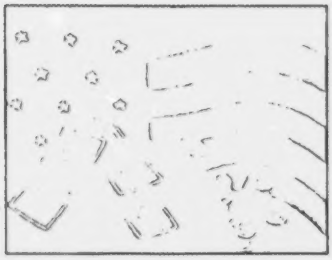
***NOTE: A Lifetime Learning Tax Credit** of up to $1,000 is available to eligible students who may be beyond their first two years, pursuing a degree, certificate, or recognized credential, or taking classes to improve their job skills.*

(Y) Yes, a **Hope Tax Credit** was claimed for this student [GO ON TO QUESTION 3]
(Y) Yes, a **Lifetime Learning Tax Credit** was claimed for this student [SKIP TO QUESTION 4]
(N) No, neither tax credit was claimed for this student [SKIP TO QUESTION 5]

$1,000 cash prize. Each completed and returned survey represented one entry in a random drawing for that prize.

Finally, to maximize the accuracy of the information reported, we suggested that the survey recipients who were claimed as dependents "either: 1) forward this survey to the person who claimed you and ask them to fill it out, **OR** 2) consult with that person, and then **go on to Question 2.**"

To help us interpret the responses, we included a final survey question that asked the respondent to identify himself or herself in relationship to the person to whom the survey was addressed.



Survey administration

The University of California system comprises nine campuses, each of which reports 1098-T data to the IRS under a separate Employer Identification Number. In addition, there are robust University Extension programs operating at eight of the campuses, as well as an extensive array of professional continuing education programs at both the main campuses and within the UC Extension programs. The IRS requires that reporting entities aggregate the data regarding potentially eligible students into a single information return (Form 1098-T) per institution, as delineated by Employer Identification Number (EIN). In the case of UC, each of the nine campuses reports under a separate EIN.

The survey sample included 9,000 UC students who had received a 1098-T in tax year 1999.

The survey sample included 9,000 UC students who had received a 1098-T in tax year 1999. The sample included students from both the "main" campuses (regularly enrolled students) and the eight UC Extension programs. There were about 530 records randomly selected from each main campus program and each UC Extension program. In selecting the sample, we attempted to exclude students who had enrolled at more than one campus during the tax year and/or who had paid a net $0 in qualified education expenses in 1999. (Students who had paid no fees should not have received a 1098-T. However, some accounting systems were unable to exclude students who paid fees and subsequently received a refund of the total fees paid. These students received a 1098-T and supplemental information which indicated that, while fees had been paid, the fees were refunded.)

The one-page survey was mailed to the survey sample on Tuesday, April 18, 2000. The tax year 1999 filing deadline was Monday, April 17, 2000, and it was our intention to distribute the survey coincident with this event. While we knew that many students and families would have completed their federal income tax forms earlier, so as to meet the March deadline for the Free Application for Federal Student Aid (FAFSA), we felt confident it would have been recent enough to enable the survey recipients to reference the tax filing without undue effort.

We mailed a reminder postcard to non-respondents on May 3 and a second survey to non-respondents on May 9. The latter included notification that the survey deadline had been

extended. These efforts yielded 3,644 responses for a response rate of 41 percent.

The University of California Corporate Student System (CSS) provided demographic data for students enrolled in main campus programs. We matched students in the survey sample to this database, allowing comparisons by student level (undergraduate, graduate), year (freshmen and sophomores, juniors and seniors), income, and other characteristics that were not identified through the survey itself. We matched 91 percent of the main campus students in the sample and have included the data in the analysis that follows.

Data analysis

Close to one-third (29 percent) of all UC main and UC Extension students responding to the survey claimed either the Hope tax credit or the Lifetime Learning tax credit.

More than half of the respondents who claimed the Hope credit claimed $1,000 or more. In fact, 43 percent claimed the full $1,500. (Two percent of respondents indicated they claimed a

Table 1 – Overview of all survey respondents claiming education tax credits

	Hope tax credit	Lifetime Learning tax credit	Neither credit
Proportion of students[6] claiming credit	8%	21%	71%
Amount of money claimed for credit			
Less than $250	12%	32%	
$250 - $499	9		18
$500 - $749	9		14
$750 - $999	6		11
$1,000 - $1,249	16		20
$1,250 - $1,500	48		5
Mean	$1,047		$565
Median	$1,200		$498
Proportion of students claiming the maximum credit amount	45%	25%	
Number of respondents	301	739	2,945

Hope tax credit of more than $1,500. These respondents may have erroneously reported the total value of the Hope tax credits for their entire family.) The average Hope tax credit claimed was more than $1,000. The average amount claimed for the Lifetime Learning credit was more than $550. Although the maximum Lifetime Learning credit taxpayers could claim was $1,000, 7 percent reported claiming more than the limit. (Many of these respondents reported a claim of $1,500, perhaps confusing the limits of the two credits, despite the information provided on the survey questionnaire.) Nearly one-fifth of all respondents (19 percent) claimed the full Lifetime Learning maximum of $1,000.

The sections that follow examine the proportion of students from different programs (main campus versus UC Extension) and for main campus students in different levels (undergraduate students versus graduate students) who claimed the credits, as well as the reasons so many students did not claim either credit.

Main campus students and the education tax credits

Qualified education expenses and gift aid from the Tax Credit Reporting System

The IRS requires that reporting entities aggregate the data regarding potentially eligible students into a single information return (Form 1098-T) per institution, as delineated by Employer Identification Number (EIN). In the case of UC, each of the nine campuses reports under a separate EIN. However, within each campus/EIN, there are multiple programs (for example, main campus, UC Extension) that independently collect data on student payments. To integrate the data from an assortment of campus computer systems, UC has contracted with a third party[7] to create and maintain a proprietary relational database which can combine demographic and financial records from many campus programs and systems into a single 1098-T information return per student, per EIN. This database is named the Tax Credit Reporting System (TCRS).

Table 2 – Main campus students: Average reported gift aid and qualified education expenses

Tax year 1999	
Average qualified education expenses reported	$ 4,376
Average gift aid reported	$ 3,127

According to the data in the TCRS, the average amount of qualified education expenses[8] paid by students enrolled in main campus programs during calendar year 1999 was $4,376. This figure is slightly higher than the average 1998-99 California resident campus fees of $4,034.83, reflecting the fact that some students pay additional nonresident tuition, professional degree fees, and/or course materials fees. These students received an average of $3,127 in gift aid (grants and scholarships); this average includes the 41 percent of students who received no gift aid[9] (see Table 2).

As illustrated in Table 3 on Page 18, one-third of main campus students were not eligible to claim a Hope or a Lifetime Learning credit because the amount of gift aid they received was equal to or greater than the amount of qualified education expenses they paid.

The IRS instructions for claiming the Hope and/or Lifetime Learning credit advise taxpayers to deduct the amount of any nontaxable gift aid received from the amount of qualified fees paid. As an institution, UC is unable to determine with any certainty the taxability of the gift aid received by any given student. However, in determining the amount of qualified education expenses remaining after the deduction of nontaxable gift aid, we

Table 3 – Main campus students: Potential eligibility

Potentially eligible students with —	
◦ No reported offsetting gift aid	41%
◦ Some reported offsetting gift aid	27%
Potentially eligible students	68%
Ineligible students	
All reported qualified education expenses offset by reported gift aid	31%

assumed (for purposes of this analysis only) that none of the gift aid received was taxable. It is with this assumption that we ascertained, based solely on the information provided in the TCRS, that more than two-thirds of main campus students had remaining qualified education expenses for which they might have claimed an education tax credit during tax year 1999.

However, whether students or their parents were eligible for the credits depended on a number of additional factors, particularly income. Income data are available for some survey respondents who received financial aid in 1999; these students will be discussed in more detail later in this report. The next section looks more closely at which main campus students did and did not claim the federal education tax credits in tax year 1999 and the reasons many respondents did not claim either credit.

Table 4 – Main campus students: Overview of survey respondents claiming education tax credits

	Hope tax credit	Lifetime Learning tax credit	Neither credit
Proportion of students claiming credit	11%	19%	70%
Amount of money claimed for credit			
Less than $250	8%	16%	
$250 - $499	8	16	
$500 - $749	9	16	
$750 - $999	7	15	
$1,000 - $1,249	13	30	
$1,250 - $1,500	56	6	
Mean	$1,118	$707	
Median	$1,500	$751	
Proportion of students claiming the maximum credit amount	52%	36%	
Number of respondents	198	349	1,335

Who claimed the education tax credits and how much was claimed?

Thirty percent of main campus respondents claimed one of the federal education tax credits. Nineteen percent of the respondents claimed the Lifetime Learning credit. As illustrated in Table 4 (Page 18), the large proportion of students who claimed the Lifetime Learning credit was driven by the fact that most students in the main campus sample were beyond their first two years of enrollment and, therefore, were eligible to claim only this credit.

More than two-thirds of the respondents who claimed the Hope credit claimed $1,000 or more. In fact, more than half (52 percent) claimed the maximum credit amount of $1,500. (One percent of the respondents reported claiming a Hope credit of more than $1,500.) The average credit was more than $1,100. The average amount claimed for the Lifetime Learning credit was about $700. Although the maximum Lifetime Learning credit that taxpayers could claim was $1,000, 8 percent reported claiming more than the limit. Many of these respondents reported a claim of $1,500, perhaps confusing the limits of the two credits, despite the information provided on the survey questionnaire. While 36 percent of main campus students claimed a Lifetime Learning credit of $1,000 or more, nearly one–third (28 percent) claimed the maximum $1,000 amount.

Why did 70 percent of main campus respondents not claim an education tax credit?

As stated above, 70 percent of respondents reported that they did not claim either of the credits. The questionnaire design anticipated this result; thus, Questions 5 and 5a, presented in Figure 2, were aimed at gaining greater insight into reasons for not claiming the credit.

As you can see in Question 5 in Figure 2, the 70 percent of respondents who did not claim either credit were asked to choose an explanation from a number of possible reasons. Table 5 on Page 20 presents the results from this question. As that table shows, 20 percent of all main campus respondents reported that they did not know

Figure 2

5 If you DID NOT claim an Education Tax Credit when you filed your 1999 tax return, please indicate the reason(s) that apply from the list below. (Please mark as many as apply.)

- ○ I didn't know about it.
- ○ My dependent student did not give me the 1098T and I thought I needed it in order to claim the credit.
- ○ I did not think I was eligible. [PLEASE CLARIFY IN QUESTION 5A]
- ○ It was too complicated.
- ○ It was not enough money to make claiming it worthwhile.
- ○ *Other:*_____

[GO ON TO QUESTION 6]

5a *If you did not think you were eligible, please indicate the reason(s) that apply from the list below. (Please mark as many as apply.)*

- ○ *My income was too high.*
- ○ *I had no tax liability.*
- ○ *The student's Gift Aid (e.g., non-taxable grants, scholarships, etc.) met or exceeded the student's tuition and fees.*
- ○ *The student was exempted from paying tuition and fees.*
- ○ *The student had a prior drug conviction.*
- ○ *I am a foreign national who is not eligible.*
- ○ *Other:*_____

[GO ON TO QUESTION 6]

about the credits. (The results do not total to 70 percent because respondents could choose more than one explanation.)

By far the most common reason given for not claiming a tax credit was ineligibility, at 41 percent (discussed in more detail below). The second most common reason cited was that the respondent did not know about the Hope or Lifetime Learning tax credits. At 20 percent, this population is significant enough to suggest that the federal government and higher education institutions need to make additional efforts to ensure eligible filers are aware of the tax credit. A small proportion of the students reported that claiming the credit was too complicated or not worthwhile. In a few cases (14), respondents reported that the dependent student failed to give the taxpayer a 1098-T. (Note: Form 1098-T is not required for the tax filer to claim either a Hope or Lifetime Learning tax credit. However, as these credits are new, the absence of the form may result in some taxpayers overlooking their potential eligibility.)

The 40 percent of respondents who reported they were not eligible for the tax credits were asked to specify one or more reasons for their ineligibility. One-quarter of all main campus survey respondents reported that their income was too high.[10] These same respondents represent more than 61 percent of all ineligible respondents. An additional 6 percent of respondents implicitly indicated that they did not claim the credit because their income was too low ("I had no tax liability"). Taken together, income was a factor for close to one-third of respondents. The next most important factor was the receipt of financial aid or exemption from tuition and fees; more than 10 percent of respondents indicated ineligibility for these two reasons. These results had notable differences when disaggregated by student level (undergraduate and graduate). These data are considered in the following section.

Findings by student level (Undergraduate/Graduate)

Approximately 70 percent of the main campus respondents were enrolled as undergraduate students at UC. For these students, the TCRS reported average qualified education expenses of $3,631 and $2,104 in gift aid. (These figures include the 50 percent of undergraduate students who received no gift aid as shown in Table 7.)

Table 5 – Main campus students: Question 5 – Reasons no credit was claimed

	Percent of all respondents	Percent of all non-claimers
I didn't know about it.	20	29
My dependent student did not give me the 1098T	1	1
I did not think I was eligible.	41	58
It was too complicated.	4	5
It was not enough money to make claiming the credit worthwhile.	5	8
Other	5	6
Number of respondents	1,918	1,335

Table 6 – Main campus students: Question 5a – Reasons respondent was ineligible for tax credits

	Percent of all respondents	Percent of all ineligible respondents
My income was too high.	25	61
I had no tax liability.	6	16
Student's gift aid met or exceeded tuition/fees.	8	19
Student was exempt from tuition/fees.	3	7
Employer paid fees.	1	2
The student had a prior drug conviction.	0	0
I am a foreign national who is not eligible.	2	4
Other	3	8
Number of respondents	1,918	678

Table 7 – Main campus students: Average reported qualified education expenses and gift aid, by student level

	Undergraduates	Graduates
Tax year 1999		
Average qualified education expenses reported	$3,631	$6,518
Average gift aid reported	$2,104	$5,960

Table 8 – Main campus students: Potential eligibility, by student level

	Undergraduates	Graduates
Potentially eligible students with:		
◦ No reported offsetting gift aid	50%	18%
◦ Some reported offsetting gift aid	22%	44%
Potentially eligible students	72%	62%
Ineligible students		
All qualified education expenses offset by reported gift aid	29%	37%

Based on the information provided in the TCRS, more than 70 percent of undergraduate respondents were potentially eligible for an education tax credit, as they had qualified expense amounts remaining after the deduction of all gift aid received during tax year 1999 (Table 8, Page 21). Using the same criteria, nearly two-thirds of graduate students were potentially eligible to claim a Lifetime Learning credit.

Who claimed the education tax credits and how much was claimed?

Undergraduate students

Twenty-seven percent of responding undergraduate students (or their parents) claimed one of the federal education tax credits. The credits claimed by, or on behalf of, these students were almost equally divided between the Hope and the Lifetime Learning credits (13 percent and 14 percent, respectively).

The undergraduate results for the Hope credit largely mirror those for all main campus students, as only a small number of graduate students reported claiming a Hope credit (to be discussed in greater detail in the next section). More than half of the undergraduate respondents who claimed the Hope tax credit claimed $1,000 or more. In fact, 51 percent claimed the full $1,500. (One percent of respondents indicated they claimed a tax credit of more than the $1,500 maximum.) The average credit claimed was more than $1,000.

The average amount claimed for the Lifetime Learning tax credit was about $660. Twenty percent claimed the full Lifetime Learning tax

Table 9 – Undergraduate students[ll]: Overview of those claiming education tax credits

	Hope tax credit	Lifetime Learning tax credit	Neither credit
Proportion of students claiming credit	13%	14%	73%
Amount of money claimed for the tax credit			
Less than $250	7%	18%	
$250 - $499	9	20	
$500 - $749	9	19	
$750 - $999	7	16	
$1,000 - $1,249	12	21	
$1,250 - $1,500	56	7	
Mean	$1,119	$661	
Median	$1,500	$629	
Proportion of students claiming the maximum credit amount	52%	28%	
Number of respondents	176	164	917

credit maximum of $1,000; 8 percent reported claiming more than the limit. Many of these respondents reported a claim of $1,500, perhaps confusing the limits of two credits, despite the information provided on the survey questionnaire.

Graduate students

More than one-third of graduate student survey respondents reported that they claimed an education tax credit; this includes 32 percent who reported claiming the Lifetime Learning credit, and 4 percent (N = 20) who reported claiming the Hope credit. Because only students enrolled in their first two years of college are eligible for the Hope credit, it is likely that some of these 20 respondents either reported claiming the Hope when they actually claimed a Lifetime Learning credit, or they erroneously claimed a Hope credit despite being ineligible.

The discussion that follows focuses on the findings for the Lifetime Learning credit.

Graduate students were slightly more likely than undergraduate students to claim an education tax credit. The mean Lifetime Learning tax credit graduate students claimed ($748) was almost $90 greater than that claimed by undergraduate students. This is probably due to the fact that graduate students, as independent tax filers with relatively low incomes, aren't typically affected by income ceiling phase-outs. While it is true that graduate students pay higher fees, graduate students also receive more offsetting gift aid. On the other hand, only 13 percent of the graduate students surveyed had an annual income greater than $30,000. Of the 43 percent of respondents indicating they claimed the maximum tax credit amount, 6 percent reported claiming a tax credit amount that was greater than the $1,000 allowable maximum.

Table 10 – Graduate students: Overview of those claiming education tax credits

	Lifetime Learning tax credit	None
Proportion of students claiming a tax credit	32%	64%
Amount of money claimed for the tax credit		
Less than $250	14%	
$250 - $499	14	
$500 - $749	14	
$750 - $999	15	
$1,000 - $1,249	38	
$1,250 - $1,500	5	
Mean	$748	
Median	$800	
Proportion of students claiming the maximum credit amount	43	
Number of respondents	170	347

Why respondents did not claim an education tax credit, by student level

As shown in Table 9 (Page 22), the proportion of undergraduate students who neither claimed a credit nor had one claimed on their behalf (73 percent) was higher than that of graduate students (64 percent). Information about the credits appeared to be a larger problem for undergraduate students than for graduate students; almost one-quarter of undergraduate respondents reported they did not claim a credit because they did not know about it, compared with just 12 percent of graduate students. Among undergraduates, 64 percent were claimed as a dependent on someone else's federal income tax return, as compared to only 8 percent of graduate respondents. However, the higher rate

Table II – Main campus students: Question 5 – Reasons no credit was claimed, by student level

	UNDERGRADUATES		GRADUATES	
	Percent of all respondents	Percent of non-claimers	Percent of all respondents	Percent of non-claimers
I didn't know about it.	24	33	12	19
My dependent student did not give me the 1098T	1	1	0	0
I did not think I was eligible.	40	55	43	67
It was too complicated.	3	5	5	7
It was not enough money to make claiming the credit worthwhile.	5	7	6	9
Other	5	7	4	6
Number of respondents	1,282	917	543	347

of dependency for undergraduates does not explain their lack of awareness about the credits, as dependent and independent students were equally likely to be unaware of the tax credits. Overall, the most likely reason both types of respondents did not claim a credit was that they (or the tax filer claiming the student as a dependent) were not eligible.

Although ineligibility was the most common reason cited for not claiming a credit for both undergraduate and graduate respondents, the reasons they were ineligible were quite different. Differences existed in the fees and gift aid of students, and graduate students were less likely to report being claimed as a dependent for tax purposes.

As shown in Table 12 (Page 25), the most frequent reason given for undergraduate ineligibility was high income (26 percent). In contrast, just 11 percent of graduate respondents gave the same response. In addition, undergraduate respondents were less likely than graduate students to report no tax liability. It is likely that both of these findings occurred because, for undergraduate students, the income in question is that of a parent, while for the largely independent graduate students, it is the respondent's own income.

For graduate students, offsetting support was more likely than high income to be a reason for not claiming a tax credit. Twelve percent of graduate respondents reported that their gift aid covered their fees, compared with just 5 percent of undergraduate students. In addition, 5 percent of graduate respondents indicated that they were exempt from tuition and fees.

It is interesting to note that data extracted from the TCRS indicate gift aid is a more common reason for ineligibility than is suggested by these self-reported reasons for not claiming a tax credit. As we saw previously in Table 8 (Page 21), 29 percent of undergraduate students and 37 percent of graduate students had all of their qualified education expenses potentially offset by gift aid. In addition, data from CSS indicate that 64 percent of all graduate students receive some type of gift aid award. It is likely that tax filers did not take the time to calculate the impact of potentially offsetting aid if they had already determined they were ineligible because of income limits.

Table 12 – Main campus students: Question 5a – Reasons respondent was ineligible for credits, by student level

	UNDERGRADUATES		GRADUATES	
	Percent of all respondents	Percent of non-claimers	Percent of all respondents	Percent of non-claimers
My income was too high.	65	26	27	11
I had no tax liability.	10	4	21	9
Student's gift aid met or exceeded tuition/fees.	13	5	27	12
Student was exempt from tuition/fees.	3	1	12	5
Employer paid fees.	2	1	2	1
The student had a prior drug conviction.	0	0	0	0
I am a foreign national who is not eligible.	2	1	7	3
Other	6	3	6	3
Number of respondents	507	1,282	231	543

Extension students and the education tax credits

Qualified education expenses and gift aid from the Tax Credit Reporting System

According to the data in the TCRS, the average amount of qualified education expenses for survey respondents enrolled in UC Extension programs was $623. This figure is substantially lower than the average for main campus students; however, it is consistent with the fee levels charged for UC Extension courses. Extension students received an average of only $8 in gift aid (see Table 13), reflecting the fact that only 2 percent (30) of UC Extension students who returned the survey received any gift aid at all.

Based solely on the information provided in the TCRS, almost all UC Extension students had qualified expense amounts remaining after the deduction of presumed "nontaxable" gift aid during tax year 1999. However, whether students were eligible for the tax credits depended on a number of other factors, particularly income. The next section looks more closely at how many UC Extension students claimed the credit, the amount claimed, and why many respondents did not claim either credit (see Table 14 on Page 26).

Who claimed the education tax credits and how much was claimed?

Similar to the finding for main campus students, 29 percent of UC Extension students claimed either the Hope or Lifetime Learning tax credit. Just 6 percent claimed the Hope credit,

Table 13 – Extension students: Average reported gift aid and qualified education expenses

Tax year 1999	
Average qualified education expenses	$623
Gift aid	$ 8

Table 14 – Extension students: Potential eligibility

Potentially eligible students with:	
◦ No reported offsetting gift aid	98%
◦ Some reported offsetting gift aid	0%
Potentially eligible students	98%
Ineligible students	
All qualified education expenses offset by reported gift aid	2%

while 23 percent claimed the Lifetime Learning credit. This distribution is consistent with the demographics of the majority of UC Extension students in that most have already earned a bachelor's degree and are therefore ineligible for the Hope.

The average Hope tax credit claimed was almost $900; more than half of the respondents receiving a Hope credit (55 percent) claimed $1,000 or more. However, the number of UC Extension respondents who claimed this credit was only 91. Less than 30 percent of UC Extension respondents claimed the full credit; this figure is notably lower than the 53 percent of main campus students who claimed the full credit. However, this result is consistent with the lower average fees paid by UC Extension students. Of the 29 percent who reported claiming the maximum credit amount of $1,500, 3 percent reported claiming more than $1,500.

Eighty percent of UC Extension students who claimed one of the education tax credits claimed the Lifetime Learning credit. About 15 percent of those who claimed a Lifetime Learning tax credit reported claiming at least $1,000. (Five percent reported claiming more than the $1,000 maximum

Table 15 – Extension students: Overview of those claiming education tax credits

	Hope tax credit	Lifetime Learning tax credit	Neither credit
Proportion of students claiming credit	6%	23%	71%
Amount of money claimed for credit			
Less than $250	20%	46%	
$250 - $499	11	20	
$500 - $749	10	12	
$750 - $999	4	7	
$1,000 - $1,249	23	11	
$1,250 - $1,500	32	4	
Mean	$ 894	$431	
Median	$1,000	$295	
Proportion of students claiming the maximum credit amount	29%	15%	
Number of respondents	91	369	1,160

Table 16 – Extension students: Question 5 – Reasons no credit was claimed

	Percent of all respondents	Percent of all non-claimers
I didn't know about it.	18	25
My dependent student did not give me the 1098T	1	1
I did not think I was eligible.	43	60
It was too complicated.	2	3
It was not enough money to make claiming the credit worthwhile.	9	12
Other	6	8
Number of respondents	1,630	1,160

tax credit.) Two-thirds claimed less than $500; this is consistent with both the average amount of eligible expenses for UC Extension students discussed above, as well as with the regulations, which allow a 20 percent credit for the first $5,000 of eligible expenses (tuition and fees). The average credit claimed was approximately $430.

Why did 70 percent of UC Extension students not claim an education tax credit?

As mentioned above, respondents who did not claim either of the credits were asked to explain why. Almost 20 percent of UC Extension students reported that they did not know about the credits. While this is a smaller proportion than undergraduate students on the main campus, it is larger than that of graduate students (see Table 11, Page 24).

By far the most common reason UC Extension students gave for not claiming the credit was that they did not believe they were eligible; 43 percent of the survey respondents fell into this category. We were surprised to find a number of written comments from survey respondents that indicated the recipient questioned his or her status as a UC student. Some of the comments referred to the student's less-than-half-time status, or enrollment in a course that was not part of a degree or certificate program. These comments seemed to indicate students' confusion about the eligibility criteria for the Hope and Lifetime Learning tax credits.

A more detailed discussion of these students follows. A larger proportion of UC Extension respondents (9 percent) than those from the main campus programs reported that they did not claim the credit because it was not enough money to make it worthwhile. (A Lifetime Learning credit calculated on the average UC Extension fee amount of $623 would be worth $124.60.)

Table 17 on Page 28 provides more detailed information for the 43 percent of UC Extension respondents who did not claim the credit because they were not eligible. Here again, high income was the most common reason for ineligibility. One-third of UC Extension students were not eligible because of high income, compared with just 25 percent of main campus students. It is not surprising that few UC Extension respondents reported that they were ineligible due to high gift aid or exemption from tuition and fees.

Table 17 – Extension students: Question 5a – Reasons respondent was ineligible for tax credits

	Percent of all respondents	Percent of all ineligible respondents
My income was too high.	33	77
I had no tax liability.	2	4
Student's gift aid met or exceeded tuition/fees.	1	2
Student was exempt from tuition/fees.	2	4
Employer paid fees.	11	25
The student had a prior drug conviction.	0	0
I am a foreign national who is not eligible.	1	3
Other	4	10
Number of respondents	1,630	571

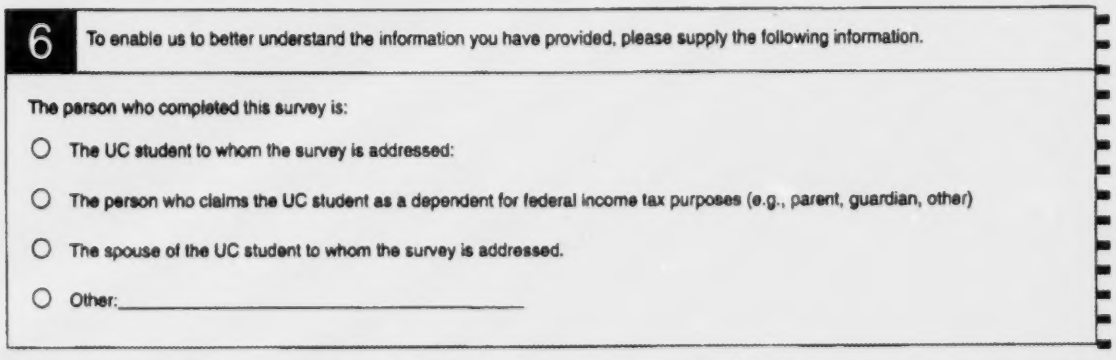
More than one in ten UC Extension students indicated that they were not eligible because their employer paid their tuition and fees. Although this was not an option listed among the choices in this question, many respondents wrote in this explanation under "Other"; these responses were coded and removed from the "Other" percentage. While we were aware that employers pay a significant number of UC Extension students' fees, we were surprised to find so many of them in the survey sample. Many of the UC Extension programs have entered into contracts with employers who pay their employees' fees; in these cases, the names of the individual students are not always known.

Who completed the survey?

The final survey question asked who completed the survey (see Figure 3).

As stated previously, the surveys were mailed to the student's permanent address, and survey recipients claimed as a dependent for federal income tax purposes were encouraged either to

Figure 3


6 To enable us to better understand the information you have provided, please supply the following information.

The person who completed this survey is:

- ○ The UC student to whom the survey is addressed:
- ○ The person who claims the UC student as a dependent for federal income tax purposes (e.g., parent, guardian, other)
- ○ The spouse of the UC student to whom the survey is addressed.
- ○ Other:_____

contact their parents or to mail the survey to their parents. Graduate students were the most likely to report that they completed the form themselves (94 percent). Respondents enrolled in UC Extension programs were also likely to report that they completed the survey (88 percent). Among undergraduate students, just 55 percent completed the survey themselves; however, there was a stark contrast by student year. Among first- and second-year students, 44 percent completed the survey, compared with 70 percent of juniors and seniors.

The first question on the survey asked whether the student who attended UC was claimed as a dependent for tax purposes. As shown in Table 18 (below), undergraduate students — a largely dependent population — were most likely to have their surveys completed by those who claim them as dependents.

Table 18 – Question 6: Who completed the survey?

	MAIN CAMPUS		EXTENSION	ALL
	Undergraduates	Graduates		
UC student	5%	94%	88%	77%
Person who claims UC student as a dependent (e.g., parent)	43	3	6	19
Spouse of UC student	1	3	4	3
Other	1	1	2	1
Number of respondents	1,228	500	1,624	3,527

Table 19 – Question 1: Dependency status

	MAIN CAMPUS		EXTENSION	ALL
	Undergraduates	Graduates		
Yes, I was claimed as a dependent for tax purposes.	64%	94%	88%	77%
Number of respondents	1,228	500	1,624	3,527

Income analysis

Parent and student income data were available for main campus survey respondents who had applied for financial aid through a match with UC's financial aid database. Of the more than 1,900 main campus survey respondents, income data were available for about two-thirds. (Income data are unavailable for students enrolled in UC Extension programs, as well as for some main campus students who have never applied for financial aid.) The analysis that follows may be more applicable to the financial aid population of UC students than to the entire undergraduate and graduate populations. In addition, it is important to be aware that the income data provided were from tax year 1998. These data reflect both taxable and nontaxable sources, and in some cases are unverified. There would likely be some adjustment in the taxable income figures for tax year 1999, and some level of correction following income verification.

Table 20 – Main campus students: Parent income of undergraduate financial aid applicants

Parent income	Percent	Number
$0	9	69
Less than $20,000	16	126
$20,000 to $39,999	19	151
$40,000 to $59,999	15	124
$60,000 to $79,999	14	112
$80,000 to $99,999	13	102
$100,000 or more	15	118
Mean	$ 58,966	
Median	$ 48,670	
Number of respondents	802	

Undergraduate students

Income distribution of respondents

Table 20 (Page 30) presents the income distribution of the undergraduate financial aid recipients in the respondent pool. About 25 percent reported a parent income between zero and $20,000, while slightly more than that percentage (28 percent) were above $80,000 (the level at which the phase-out of the credits begins for taxpayers filing a joint return). The remaining half of undergraduate respondents fell between $20,000 and $80,000. On average, the parent income reported was almost $59,000. The median ($48,670) was substantially lower than the mean, reflecting the concentration of incomes at the lower end of the distribution.

According to data from the TCRS, financial aid applicants with higher parent income levels were more likely to have some qualified education

Table 21 – Parent income of undergraduate financial aid applicants by amount of qualified education expenses after gift aid offset[12]

Parent income	No reported offsetting gift aid	Some reported offsetting gift aid	All qualified education expenses offset by reported gift aid	N
$0	14%	26%	59%	69
Less than $20,000	5	17	79	126
$20,000 to $39,999	8	22	70	151
$40,000 to $59,999	23	44	33	124
$60,000 to $79,999	54	40	6	112
$80,000 to $99,999	71	19	11	102
$100,000 or more	77	19	3	118

Table 22 – Overview of undergraduate financial aid applicants[13] claiming education tax credits, by parent income

	Hope tax credit	Lifetime Learning tax credit	Neither credit
$0	19%	9%	72%
Less than $20,000	13	9	79
$20,000 to $39,999	11	9	79
$40,000 to $59,999	24	15	60
$60,000 to $79,999	23	23	54
$80,000 to $99,999	16	15	70
$100,000 or more	8	5	86
All undergraduates	14	13	73
Mean	$54,148	$56,904	$60,672
Median	$53,428	$57,818	$44,000

Table 23 – Overview of undergraduate financial aid applicants[13] claiming education tax credits by student income

Student income	Hope tax credit	Lifetime credit	Neither
$0	17%	7%	76%
Less than $20,000	15	15	70
$20,000 to $39,999	7	27	67
$40,000 to $79,999	14	14	71
$80,000 to $99,999	0	75	25
$100,000 or more	0	100	0
Mean	$3,059	$ 8,652	$3,388
Median	$5,240	$17,585	$6,699

Table 24 – Main campus students: Student income of graduate financial aid applicants

Parent income	Percent	Number
$0	9	69
$0	14	45
Less than $2,500	10	34
$2,500 to $4,999	15	49
$5,000 to $7,499	8	26
$7,500 to $9,999	12	40
$10,000 to $12,499	7	22
$12,500 to $14,999	7	23
$15,000 to $17,499	5	16
$17,500 to $19,999	2	6
$20,000 to $24,999	4	13
$25,000 to $29,999	4	14
$30,000 to $39,999	3	11
$40,000 or more	10	32
Mean	$ 15,207	
Median	$ 8,132	
Number of respondents	331	

expenses. More than 90 percent of financial aid applicants with parent income of $80,000 or above had qualified education expenses after financial aid was taken into account, compared with less than one-quarter of respondents with parent income between zero and $20,000. In contrast, 80 percent of financial aid applicants in the $40,000-$80,000 interval had some amount of qualified education expenses; almost 95 percent of the respondents in the top half of this interval had qualified education expenses.

Income distribution and claiming education tax credits

Given the demographic patterns described above, it is not surprising that there were different rates of claiming the credits among the various income intervals. As shown in Table 22 on Page 31, financial aid applicants with parent income at either extreme of the distribution were more likely to have claimed neither credit. Twenty-two percent of the applicants in the "less than $20,000" income category claimed one of the credits, as did only 13 percent of those with incomes of $100,000 or more. This compares with 46 percent in the middle-income group ($60,000-$80,000).

Graduate students

Income distribution of respondents

In contrast to the undergraduate respondents, 93 percent of graduate financial aid applicants reported that they were independent for tax purposes. Student income was available for 61 percent of the graduate respondents. Table 24 presents the income distribution of graduate financial aid recipients in the respondent pool. About one-quarter of financial aid applicants reported income between $0 and $2,500, while close to 30 percent had income of $15,000 or more.

There was no strong relationship between graduate student income and complete coverage of fees with offsetting gift aid. However, graduate financial aid applicants at the lowest end of the income distribution were likely to have more of their eligible expenses covered by gift aid (Table 25), while students at the highest income levels ($25,000 or more) were less likely to have gift aid to offset their eligible expenses.

Table 25 – Main campus students: Student income of graduate respondents by level of qualified education expenses (after aid)

	No reported offsetting gift aid		Some reported offsetting gift aid		All qualified education offset by reported gift aid		Total Number
Student income	Percent	N	Percent	N	Percent	N	
$0	0	0	60	27	40	18	45
Less than $2,500	0	0	71	24	29	10	34
$2,500 to $4,999	6	3	73	36	20	10	49
$5,000 to $7,499	8	2	54	14	38	10	26
$7,500 to $9,999	5	2	65	26	30	12	40
$10,000 to $12,499	14	3	68	15	18	4	22
$12,500 to $14,999	0	0	43	10	57	13	23
$15,000 to $17,499	19	3	44	7	38	6	16
$17,500 to $19,999	0	0	50	3	50	3	6
$20,000 to $24,999	8	1	46	6	46	6	13
$25,000 to $29,999	21	3	50	7	29	4	14
$30,000 to $39,999	36	4	36	4	27	3	11
$40,000 or more	41	13	44	14	16	5	32

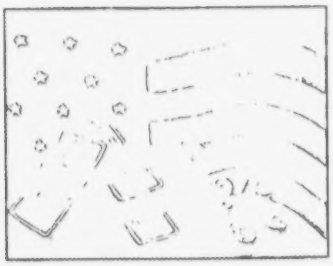
Income distribution and claiming education tax credits

Table 26 shows the proportion of graduate financial aid applicants at each student income level who claimed a Lifetime Learning tax credit.

Overall, financial aid applicants who did not claim a tax credit reported higher income than students who did claim a credit, although there are no clear patterns by income group.

Table 26 – Main campus: Overview of graduate financial aid applicants claiming education tax credits by student income

Student income	Lifetime tax credit	No tax credit
$0	33%	65%
Less than $2,500	29	71
$2,500 to $4,999	27	67
$5,000 to $7,499	46	54
$7,500 to $9,999	50	50
$10,000 to $12,499	50	45
$12,500 to $14,999	22	74
$15,000 to $17,499	56	31
$17,500 to $19,999	33	67
$20,000 to $24,999	38	54
$25,000 to $29,999	50	43
$30,000 to $39,999	55	36
$40,000 or more	31	53
Mean	$13,682	$14,591
Median	$ 8,767	$ 6,673

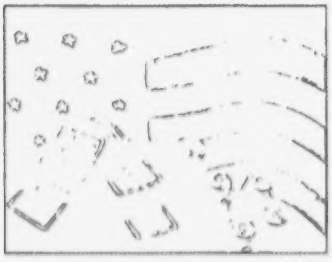


The value of education tax credits

In an attempt to extrapolate the value of these education tax credits to the total UC student body, we began with the assumption that the proportion of credits claimed among the various constituencies surveyed would be replicated in the student body as a whole. We further assumed that the mean value of a credit claimed by students in a particular program (main campus students, graduate students, etc.) would hold true for the larger group. From these assumptions we derived the following estimates:

It is estimated that the total value of the Hope tax credit to UC students in tax year 1999 was $34.9 million: $27.6 million for main campus students and $7.3 million for UC Extension students. Also, the total value of the Lifetime Learning tax credit to UC students in tax year 1999 is estimated at $44.7 million: $30.7 million for the main campus students and $14 million for UC Extension students.

This brings the total estimated value of these education tax credits to $79.6 million. This is a "maximum estimate" because non-respondents are less likely than respondents to have used the education tax credits. Nonetheless, we would expect that the value of these credits will increase as more students and families become more aware of their availability and claim a Hope or Lifetime Learning tax credit.



Analysis of survey findings

It is evident from this survey that the Hope and Lifetime Learning tax credits have had some early success in helping students and families meet the cost of higher education. We believe it is also clear that UC has made a worthwhile investment to ensure students and families have access to the information needed to calculate a credit for which they may be eligible. (UC may dispute the value of some of the statutory reporting regulations, but there is clearly value in providing meaningful information to students and families.)

The financial value of the education tax credits is significant.

There is no disputing the fact that the Hope and Lifetime Learning tax credits are complex. They are challenging for reporting institutions and for some students. However, the benefits far outweigh the costs and, as with every new program, the challenges should diminish with time and experience.

Providing students and families with education tax credits averaging between $661 and $1,119 per year represents a significant amount of financial support. At UC, the estimated aggregate value of $80 million is about 85 percent of the $95 million UC students receive in Pell Grants, the federal government's largest grant program. As the federal student aid system is now structured, the tax credits complement the Pell program, providing modest levels of assistance to middle-income students not eligible for Pell Grants (that is, those with family incomes from $40,000 to $80,000).

Most students eligible to claim the education tax credits actually claimed them.

Although it is evident that some students and families remain unaware of or are confused about the eligibility requirements associated with these new education tax credits, most are aware and, if eligible, have benefited. UC estimated 37 percent of main campus students would be eligible to claim an education tax credit; the survey findings confirm that in the second year the credits were available (and the first full year of Lifetime Learning tax credit availability), 30 percent claimed a credit. Some of this discrepancy between eligibility and actual claims is evidently due to a lack of information. This is true despite UC's efforts to provide general and personalized information (via the expanded Form 1098-T, supplemental financial information, and tax credit informational brochure), and to act as a resource when students need clarification or direction (through the call center and Web site).

Very few students who received financial aid for qualified education expenses failed to take their aid into account when applying for a tax credit.

Given the fact that Form 1098-T itself contained no financial information, and Form 8863 failed to guide tax filers through the process of offsetting nontaxable gift aid amounts, we were concerned that students might be inclined to calculate an education tax credit using only the figure provided for qualified education expenditures, without regard to the aid they received. We were pleased to find that only four main campus students who had received gift aid claimed an education tax credit equal to the amount of qualified education expenses paid. In the case of the two who claimed a Hope credit, given the structure of the credit (100 percent of the first $1,000), this claim may have been accurate. However, for the two claiming a Lifetime Learning credit, it is unlikely the credit was calculated accurately (that is, 20 percent of the first $5,000).

Twelve UC Extension students claimed a Hope credit equal to the amount of qualified education expenses paid. These claims are likely to be accurate, as UC Extension fees averaged less than $1,000 and UC Extension students were unlikely to have received nontaxable gift aid. However, the 57 UC Extension students who claimed Lifetime Learning credits equal to the amount of qualified education expenses paid are likely to have made an error.

Students and families need to be educated about these new tax benefits.

In addition to the confusion and misunderstanding expressed in the verbatim comments that follow, 27 percent of all survey respondents who did not claim a Hope or Lifetime Learning tax credit said they were unaware such credits were available. When students are writing: *"I did not think I was eligible because I did not get any student loans,"* it is a signal that there is further need to inform students and families about the education tax credits and the eligibility requirements. In the case of UC, we estimated 37 percent would be eligible, but only 30 percent claimed a credit in the first full year of availability. Better information may close this gap.

Analysis of survey's verbatim comments

The Lifetime Learning eligibility criteria may be too complex or too dissimilar to Hope.

Unlike the Hope tax credit, the Lifetime Learning tax credit may be claimed for as many tax years as qualified education expenses are paid. However, this qualification was a source of confusion for some respondents, who told us:

"You can only claim it two years in a row. I decided to wait to use it until next year."

"The student was not in his first two years of college, we wanted to save the Lifetime for him to use at a later date."

Others thought the half-time course load requirement for the Hope credit also applied to the Lifetime Learning tax credit. One respondent wrote:

"I only took one night-time course and did not think that I met the half-time student requirement."

Still others erroneously assumed that, like the Hope credit, the Lifetime Learning credit required enrollment in a program leading to a degree, certificate or other recognized credential, and wrote:

"Was not taking course for any of the indicated reasons i.e. Degree, certificate etc.," "I have been out of school too long. My UC classes were continuing education."

"Not currently pursuing a degree."

Some respondents mistakenly thought the tax credits were only available to undergraduates. They wrote:

"I am a student in professional school with an undergrad degree already."

"Student is in graduate school. Credit applied to undergraduates."

Other respondents seemed not to understand that loan proceeds used to pay qualified education expenses were not "gift aid." They wrote:

"I was not a freshman/sophomore nor did I spend any out of pocket money for my education in 1999. Can we deduct loans?"

"I was told, that if I applied for a tax credit, I would have to claim my student loans for tuition as income."

Finally, some students were confused about whether coursework to improve job skills applied only to the tax filer's current job or to career development courses as well:

"I was not eligible for the Hope and I understood that I was not eligible for the Lifetime, since I had chosen to change careers."

The effect of income ceilings

The income ceilings may be disadvantaging some needy students and families.

The cost of living in California is higher than in many other parts of the United States. A significant number of respondents indicated they did not claim a Hope or Lifetime Learning tax credit because their income exceeded the eligible limits.

However, some of these people told us that, while they were reporting a modified Adjusted Gross Income (AGI) in excess of $50,000 (for single filers), they still struggle to meet the expenses associated with UC's relatively low-cost education. One respondent wrote:

"I am a single parent. A married couple with my income qualifies. I do not. It is very unfair. I make lots of sacrifices to send my children to college, like no furniture in my house, no vacation. Use the money for my son's expenses."

Another echoed this sentiment, adding:

"H&R Block said that I (a teacher) made too much money to get it ... I have three kids in college and I have never qualified for it!"

For many Californians, particularly single filers with dependent students, the income ceilings are too low. Consideration should be given to family size, the number of students in college at the same time, and the geographic region in which the tax filer resides. A careful review of these filers' financial positions would likely confirm they are indeed the students and families the Hope and Lifetime Learning tax credits were intended to benefit. In some regions of the country, an income of $40,000-$50,000 may not provide a family with enough discretionary income to finance a college education; yet the income limits do not take these regional differences into account.

The non-refundable aspect of the education tax credits may be disadvantaging some needy students and families.

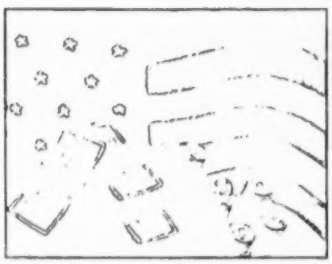
Some students and families whose income falls within the allowable ranges find they have little or no federal income tax liability from which to realize any benefit from the Hope and Lifetime Learning tax credits. These respondents' typical comments included:

"I earned only $7,000 last year, not enough to help my child,"

"My income was insufficient to claim the credit," and

"I did not make enough money to qualify last year."

Amending the statute to make these tax benefits refundable — either in whole or in part — would offer some relief to these needy tax filers.



Endnotes

1 While this report refers to "students" claiming a Hope or Lifetime Learning tax credit, all such references include the tax credits claimed on behalf of students by tax filers claiming the student as a dependent.

2 "Gift Aid" includes scholarships, grants, fellowships, traineeships, stipends, fee waivers, fee exemptions, fee remissions, as well as awards provided by entities other than UC.

3 Public Law 105-34, August 5, 1997.

4 Qualified education expenses are defined as those expenses required by and paid to the institution for enrollment purposes. They include tuition and certain fees; they do not include books, room and board, athletics (unless part of the student's degree program), insurance, equipment, transportation or other similar personal living expenses. For most students, the amount of qualified education expenses provided will likely be less than the total amount of money they have paid to UC.

5 The amount an eligible taxpayer may claim, for both the Hope and Lifetime Learning tax credits, is gradually reduced for single tax filers whose modified adjusted gross income (AGI) is between $40,000 and $50,000; for joint filers, the income limits are between $80,000 and $100,000. A taxpayer who is married and filing a separate tax return cannot claim the credit.

6 While this report refers to "students" claiming a Hope or Lifetime Learning tax credit, all such references also include tax credits claimed on behalf of students by tax filers claiming the student as a dependent.

7 AFSA Data Corporation.

8 Qualified education expenses are defined as those expenses required by and paid to the institution for enrollment purposes. They include tuition and certain fees; they do not include books, room and board, athletics (unless part of the student's degree program), insurance, equipment, transportation, or other similar personal living expenses. For most students, the amount of qualified education expenses provided is likely to be less than the total amount of money they have paid to UC.

9 All references to reported gift aid are irrespective of the potential taxability of that aid and are limited to amounts processed by UC. While nontaxable gift aid must be deducted by the taxpayer from the amount of qualified education expenses paid, there is no way for the reporting

institution to determine if taxes were paid on a given amount or not. Therefore, while we "assume" non-taxability in this analysis, it is likely not the case in every situation.

10 Main campus respondents reporting that the income ceiling was too high were most likely to be dependents (71 percent) and, therefore, were likely referring to the income of the parent or person who claims them as a dependent for federal income tax purposes.

11 Although the data refer to "students" claiming a Hope or Lifetime Learning tax credit, these figures include credits claimed on behalf of students by tax filers claiming the student as a dependent.

12 "No reported offsetting gift aid" refers to students who had no gift aid amounts included on the UC "Information for IRS Form 8863" supplemental financial statement. "Some reported offsetting gift aid" refers to students who had some gift aid amounts included on the UC supplemental financial statement. "All qualified education expenses offset by reported gift aid" refers to students who had gift aid amounts equal to or greater than the qualified expense amounts provided to the student on the UC supplemental financial statement.

13 These data include primarily dependent undergraduate financial aid applicants.

Exhibits

Exhibit A

☐ CORRECTED (if checked)

FILER'S name, street address, city, state, ZIP code, and telephone number	1	OMB No. 1545-1574	Tuition Payments Statement
	2	1999 Form 1098-T	
FILER'S Federal identification no. / STUDENT'S social security number			Copy B For Student
STUDENT'S name Street address (including apt. no.) City, state, and ZIP code			This information is being furnished to the Internal Revenue Service.
Account number (optional)	3 At least half-time student (if checked) ☐	4 Exclusively graduate student (if checked) ☐	

Form 1098-T (Keep for your records.) Department of the Treasury - Internal Revenue Service

WHAT IS IRS FORM 1098-T?

IRS Form 1098-T – Beginning with the 1998 calendar year, a college or university that received qualified tuition and related expenses on your behalf is required to file Form 1098-T, above, with the Internal Revenue Service (IRS). A copy of Form 1098-T must be furnished to you. The information being reported to the IRS verifies your enrollment with regard to certain eligibility criteria for the Hope Credit and the Lifetime Learning Credit. However, the enrollment information by itself does not establish eligibility for either credit.

- **Boxes 1 and 2.** These boxes are not applicable for tax year 1999.
- **Box 3.** Shows whether your college or university considers you to have carried at least one-half the normal full-time workload for your course of study, for an academic term, during the 1999 calendar year.
- **Box 4.** Shows whether your college or university considers you to have been enrolled *exclusively* in a program leading to a graduate degree, graduate-level certificate, or other recognized graduate-level educational credential during the 1999 calendar year.

BACKGROUND INFORMATION

The Taxpayer Relief Act of 1997 (TRA 97) established two new education tax credits: the Hope Credit for students who are enrolled in one of the first two years of postsecondary education and are carrying at least a half-time workload while pursuing an undergraduate degree, certificate, or other recognized credential; and the Lifetime Learning Credit for students who take one or more classes from a college or university to pursue an undergraduate or graduate degree, certificate, other recognized credential, or to acquire or improve job skills.

If the student listed is claimed as a dependent for federal income tax purposes, the student cannot claim either credit; however, the taxpayer who claims the student as a dependent may be eligible.

Amount of Hope Credit: 100 percent of the first $1,000 in qualified education expenses paid, and 50 percent of the next $1,000. The maximum amount that can be claimed for qualified education expenses paid on or after **January 1, 1999** through and including December 31, 1999 is $1,500, or the amount of tax liability, whichever is less.

Amount of Lifetime Learning Credit: 20 percent of the first $5,000 paid in qualified education expenses. The maximum amount that can be claimed for qualified education expenses paid on or after **January 1, 1999** through and including December 31, 1999 is $1,000, or the amount of tax liability, whichever is less.

To claim either credit, use IRS Form 8863, Education Credits.

Additional requirements and conditions apply, including income ceilings on eligibility and possible reductions to the amount of qualified education expenses that can be claimed. For information about these credits, see IRS Publication 970: Tax Benefits for Higher Education; IRS Announcement 97-60: Consumer Guidance on Education Tax Incentives; and IRS Publication 520: Scholarships and Fellowships. These documents, as well as IRS Form 8863, are available at www.irs.treas.gov or by calling the IRS at 1-800-829-1040. Additional instructions from your school, along with this 1098-T, IRS Form 8863, and general information on TRA97 are also available on www.1098-T.com.

Exhibit B

UNIVERSITY OF CALIFORNIA
HOPE AND LIFETIME LEARNING CREDITS
Information for IRS Form 8863

FirstName MiddleName LastName 999-99-9999
UC Campus

YOU MAY BE ABLE TO REDUCE YOUR FEDERAL INCOME TAX LIABILITY...

NOTICE TO STUDENT: You may be able to reduce your federal income tax liability by claiming a Hope or Lifetime Learning Credit (education credit). You may be eligible for these credits if **qualified education expenses** were paid to the University (including University Extension and Summer Session) by you or on your behalf in 1999. The information provided below is intended to assist you in preparing Internal Revenue Service (IRS) Form 8863. Form 8863 is used to determine your eligibility and the amount of education credits you may be entitled to claim on your 1999 Federal Individual Income Tax Return. **The information provided below was not reported to the IRS.**

If you are claimed as a dependent on another person's tax return (such as your parent's return), please give this notice to that person.

Please note that ***taxpayers with "Modified Adjusted Gross Income" of $50,000 or more ($100,000 or more if married filing jointly) are not eligible*** to claim either credit and, therefore, may choose to disregard this notice.

The University and its UC Education Tax Credit Reporting Service are unable to provide individual income tax advice. *Please contact the Internal Revenue Service at 1-800-829-1040* or your personal tax advisor for further information relating to your eligibility and/or calculation of these credits.

TAX YEAR 1999 AMOUNTS

Part 1: Qualified Education Expenses *(a)*		Part 2: Gift Aid and Fee Reductions *(b)*	
University Registration Fees	$	Grants, Scholarships	$
Educational Fees	$	Fellowships, Traineeships And Stipends	$
Nonresident Tuition	$	Outside Sponsored Awards	$
Professional School Fees	$	Third-Party Billing Arrangements	$
Summer Session Fees	$	Tuition/Fee Remissions	$
University Extension Fees	$	Waivers and Exemptions	$
Continuing Education Fees	$	Other or Non-Specified Gift Aid	$
Course Materials Fees	$		
Other or Non-specified Qualified Education Fees	$		
Graduate School of Management Evening Program Fees	$		
Total for January 1 – December 31, 1999	$		

TAX YEAR 1999 ADJUSTMENTS TO TAX YEAR 1998 AMOUNTS *(c)*

Part 3: Qualified Education Expenses Reversed or Refunded		Part 4: Gift Aid and Fee Reductions Reversed or Disbursed	
University Registration Fees	$	Grants, Scholarships	$
Educational Fees	$	Fellowships, Traineeships and Stipends	$
Nonresident Tuition	$	Outside Sponsored Awards	$
Professional School Fees	$	Third-Party Billing Arrangements	$
Summer Session Fees	$	Tuition/Fee Remissions	$
University Extension Fees	$	Waivers and Exemptions	$
Continuing Education Fees	$	Other or Non-Specified Gift Aid	$
Course Materials Fees	$		
Other or Non-specified Qualified Education Fees	$		
Graduate School of Management Evening Program Fees	$		
Total for January 1 – December 31, 1999	$		

(a) ***"Qualified Education Expenses" Definition:*** *The expenses must be required by and paid to the institution for enrollment purposes. They include tuition and certain fees; they do not include books, room and board, athletics (unless part of the student's degree program), insurance, equipment, transportation, or other similar personal living expenses. As a result, the amount of Qualified Education Expenses listed above will likely be less than the total amount of money you have paid to the University.*

(b) ***Calculation of "Qualified Education Expenses" for Use on IRS Form 8863:*** *Some portion of your Gift Aid may be subject to income tax. Please consult with the IRS or your tax advisor to determine the taxability of your Gift Aid and how such amounts may affect the amount of your education tax credits. For additional information on these issues, please reference IRS Notice 97-60: Consumer Guidance on Education Tax Incentives, IRS Publication 520: Scholarships and Fellowships, and IRS Publication 970: Tax Benefits for Higher Education. These documents, as well copies of IRS Form 8863, can be obtained at the IRS web site, www.irs.treas.gov, or by calling the IRS at 1-800-829-1040. Form 8863 is also available at www.1098T.com.*

(c) ***Amounts Appearing in Parts 3 and 4 represent transactions processed in Tax Year 1999 that may affect your transactions for Tax Year 1998. If amounts are shown in these sections, and if a Hope or Lifetime Learning Credit was claimed by you or on your behalf for Tax Year 1998, please refer to the instructions for IRS Form 8863 or IRS Publication 970 regarding how such amounts must be accounted for on your current year tax return.***

For more detailed information pertaining to the amounts listed above, visit the UC Education Tax Credit Reporting Service web site at www.1098T.com. If you do not have access to the World Wide Web, call toll-free 1-877-HOPE811 (1-877-467-3811). For TTY call 1-800-720-6263.

Exhibit C

University of California
Tax Credit Utilization Survey

MARKING INSTRUCTIONS:
- Use a No. 2 pencil only. Please do not use ink or ballpoint pen.
- Completely darken the circle that corresponds to your response.
- Erase changes completely and cleanly.
- Make no stray marks on the form.

1 Were you claimed as a "dependent" for 1999 federal income tax purposes by someone else (e.g., your parents claimed you as a dependent exemption)?

Ⓨ Yes → *If you answered YES, either: 1) forward this survey to the person who claimed you and ask them to fill it out, OR 2) consult with that person, and then go to Question 2.*

Ⓝ No → *If you answered NO, go on to Question 2.*

The following questions should be answered as they apply to the STUDENT TO WHOM THIS SURVEY WAS ADDRESSED. [illegible] terms of the student to whom it was sent.

2 Did you claim any Education Tax Credit (i.e., Hope or Lifetime Learning Tax Credit) when you filed your 1999 tax return for the UC student to whom this survey was addressed?

NOTE: A Hope Tax Credit of up to $1,500 is available to eligible students in their first two years of college, attending at least halftime, and pursuing an undergraduate degree, certificate, or recognized credential.

NOTE: A Lifetime Learning Tax Credit of up to $1,000 is available to eligible students who may be beyond their first two years, pursuing a degree, certificate, or recognized credential, or taking classes to improve their job skills.

Ⓨ Yes, a **Hope Tax Credit** was claimed for this student [GO ON TO QUESTION 3]
Ⓨ Yes, a **Lifetime Learning Tax Credit** was claimed for this student [SKIP TO QUESTION 4]
Ⓝ No, neither tax credit was claimed for this student [SKIP TO QUESTION 5]

3 What was the amount of the **HOPE TAX CREDIT** that you claimed for the UC student?

NOTE: You may find this number on your IRS Form 8863 or provide an estimated amount.

$. 0 0

[SKIP TO QUESTION 6]

4 About how much of the **LIFETIME LEARNING TAX CREDIT** that you claimed was for the UC student?

NOTE: Your Lifetime Learning Credit, as reported on IRS Form 8863, may have included other students. Please estimate the portion of the credit for this student only.

$. 0 0

[SKIP TO QUESTION 6]

If you have questions regarding this survey, please email them to tax survey@ucop.edu

For copies of the 1098-T and supplemental financial information for the UC student, please call 1-877-HOPE811 (1-877-467-3811) or visit the TCRS web site at www.1098T.com.

PLEASE DO NOT WRITE IN THIS AREA

17448

BEST COPY AVAILABLE

5 If you DID NOT claim an Education Tax Credit when you filed your 1999 tax return, please indicate the reason(s) that apply from the list below. (Please mark as many as apply.)

- ○ I didn't know about it.
- ○ My dependent student did not give me the 1098T and I thought I needed it in order to claim the credit.
- ○ I did not think I was eligible. [PLEASE CLARIFY IN QUESTION 5A]
- ○ It was too complicated.
- ○ It was not enough money to make claiming it worthwhile.
- ○ *Other:*_____

[GO ON TO QUESTION 6]

5a *If you did not think you were eligible, please indicate the reason(s) that apply from the list below. (Please mark as many as apply.)*

- ○ *My income was too high.*
- ○ *I had no tax liability.*
- ○ *The student's Gift Aid (e.g., non-taxable grants, scholarships, etc.) met or exceeded the student's tuition and fees.*
- ○ *The student was exempted from paying tuition and fees.*
- ○ *The student had a prior drug conviction.*
- ○ *I am a foreign national who is not eligible.*
- ○ *Other:*_____

[GO ON TO QUESTION 6]

6 To enable us to better understand the information you have provided, please supply the following information.

The person who completed this survey is:

- ○ The UC student to whom the survey is addressed:
- ○ The person who claims the UC student as a dependent for federal income tax purposes (e.g., parent, guardian, other)
- ○ The spouse of the UC student to whom the survey is addressed.
- ○ Other:_____

Thank you for completing this survey!

Return this survey by May 15, 2000 and you will be eligible to win a GRAND PRIZE OF $1,000!!!!

A pre-addressed, postage-paid envelope has been provided.

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University of California, Office of the President
1111 Franklin, 9th Floor
Oakland, CA 94607-5200

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Barbara A. Hoblitzell, principal policy analyst, has been on staff at the University of California, Office of the President (UCOP) since 1998. Her primary focus has been the Taxpayer Relief Act of 1997. Prior to joining UCOP, she spent five years as an administrator on the university's Berkeley campus and seven years as a manager with AT&T in California and New York.

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